CENTRAL BANK OF TRINIDAD & TOBAGO

Guideline for the Management of Liquidity Risk
Industry Comments

Section of Guideline	Industry Comments	Central Bank's responses
Application and Scope	1. The Application and Scope states that the guideline applies to all licensees and financial holding companies. We seek clarification that a financial holding company can take a group approach so that each subsidiary does not have to perform all functions independently and also have the holding company undertake the stated activities.	1. The institution must demonstrate that the management of liquidity risk is being undertaken on both an individual and consolidated basis. While the holding company may develop policies that apply across its subsidiaries there should be a demonstration of effective management of liquidity risk at each licensed subsidiary. This should be evidenced in reports to the Board and internal audit reports. Further, it is expected that the holding company is aware of material issues that may affect the liquidity risk profile of its subsidiaries. Where such material issues are identified, actions to address these should be undertaken at both the holding company and subsidiary.
Implementation Of A Sound Liquidity Risk Management Framework The liquidity risk management framework of a financial institution should include, at a minimum: **5.4.1** a board-approved tolerance for liquidity risk that is reflected in documented liquidity and funding policies	1. Liquidity and Funding Policies in place include (i) Liquidity Risk Policy; (ii) Capital Management Plan; (iii) Group ALCO Policies 2. Out of an abundance of caution, this section should clearly indicate that the risk management policies, processes and systems referred to are liquidity risk management policies, processes and systems.	1. The policies in place are noted. However, institutions are guided to review their internal policies to assess their sufficiency and in particular to ensure they align with the guidance issued by the Central Bank. 2. The guideline treats exclusively with liquidity risk management. In this regard and based on the extensive detail provided throughout the guideline, this amendment is not considered necessary.

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Implementation Of A Sound Liquidity Risk Management Framework The liquidity risk management framework of a financial institution should include, at a minimum: **5.4.6** regular monitoring and management of intra-day and intra-group liquidity needs; **5.9.5** Among other things, institutions should ensure that reports capture intra-day liquidity positions, track exposures to contingent liabilities and monitor funding sources.	1. Formal intra-day monitoring and management should not be a mandatory requirement for smaller companies, or in managed situations. 2. The mandatory requirement to formally capture intra-day positions may not be necessary, nor practical. The frequency and circumstances should be specified - e.g.2-3 times per day, each day.	1. It is noted that intraday liquidity management may not be critical for all insurance companies. However, it would be important for insurers with volatile cash flows that could generate short-term liquidity needs. This notwithstanding, the Bank has reconsidered the scope of application of the guideline given the unique liquidity characteristics of the respective sectors. Accordingly, the guideline will only apply to institutions licensed or permitted under the Financial Institutions Act, 2008 (FIA). The Bank will issue separate guidance for the management of liquidity risk by insurers at a later date. 2. Intraday monitoring and management of liquidity risk is an important component of liquidity risk management particularly for institutions licensed under the FIA, 2008. As discussed above, the application to insurance companies is important in particular, for institutions with volatile cash flows. However, the intraday monitoring requirement in respect of insurers will be addressed in separate liquidity guidance to the insurance sector. The frequency of intraday monitoring would depend on the nature and complexity of the specific institution and, as a consequence, will not be stipulated by the Central Bank.

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Implementation Of A Sound Liquidity Risk Management Framework **5.4.8** a strategy to ensure that the institution maintains a portfolio of unencumbered high-quality liquid assets (HQLA) that are available to withstand a range of stress events	1. Regional capital markets are generally illiquid. HQLA should be specifically defined to state whether treasury bills, treasury notes etc. are considered suitable HQLA.	1. Detailed guidance on High Quality Liquid Assets (HQLA) will be contained in the Central Bank's guidance on the Liquidity Coverage Ratio to be issued in 2021. However, in general, HQLAs should be liquid in markets particularly during stressed period and would include cash and zero risk weighted sovereign securities.
Implementation Of A Sound Liquidity Risk Management Framework **5.5.1 (k)** The Board together with senior management notify the Central Bank as soon as they become aware of any material developments that may have an impact on the institution's liquidity profile	1. Requirement for some definitions/specifications to avoid arbitrary interpretations e.g. what does "material" constitute? What will constitute an adverse impact on the liquidity profile? 2. The board together with "senior management" notifying CBTT considered cumbersome. This can simply be via communication from the CEO/ ALCO's Chair/ED.	1. The concept of the reporting material issues to the Central Bank accords with sound corporate governance principles. These are articulated in the Bank's Corporate Governance Guideline (versions 2007 and June 2020 (draft)). Materiality is a relative concept and depends on a number of factors including the institution's nature, size complexity, risk appetite and risk profile and trends. Effective risk management requires the Board and senior management to understand the institution's risk profile and thereby identify issues that may have a significant impact on the institution. In this regard, mechanisms such as liquidity risk triggers and effective internal reporting should be established by the institution. 2. The requirement will be amended to apply only to the Board.

	3. How long is "as soon as" – is it within 24 hours?	3. While the Bank will not specify a precise timeframe, it will have a reasonable expectations of the priority that institutions should ascribe to the reporting of material issues.
Implementation Of A Sound Liquidity Risk Management Framework **5.5.3** Responsibility for managing overall liquidity may be delegated to a specific individual or group (for example, the committee with responsibility of asset liability management) within the institution	1. Can responsibility for managing overall liquidity be assigned to the Finance Manager or must responsibility be at the level of the CEO or Audit Committee? It is not clear what is meant by senior management in this context.	1. The overall oversight responsibility for liquidity risks rests with the Board. This oversight responsibility may also be delegated to an appropriate committee of the Board, for example, the Risk Management Committee. Senior management is distinct and should be accountable to the Board for the execution of institutions liquidity risk management framework. The institution should therefore identify persons belonging to these distinct groups and assign responsibilities for its liquidity risk management as appropriate.
Reporting on Liquidity Risk **5.9.6** Public disclosure should be included as a component of the reporting framework. Institutions are encouraged to disclose sufficient information regarding its management of liquidity risk to enable relevant stakeholders to make an informed judgement about the ability of the institution to meet its liquidity needs.	1. Disclosure under Liquidity Risk is made in the Annual Report. Is greater frequency required? 2. This Section appears to suggest that some sort of public disclosure is required and we should seek clarification. 3. Additional information and clarification is needed with respect to the requirement for public disclosure regarding the organization's management of liquidity risk. In any event, this should not be a separate disclosure requirement, but rather be integrated into the relevant department, and necessary functions of the Audit/ Board Committees.	1. At the present time, disclosures in the audited financial statements and annual report are adequate until such time as the Central Bank specifies additional requirements. As you are aware the Central Bank intends to issue a Pillar 3 Disclosure guideline which will require public disclosures of inter alia risk, capital and risk management. This Guideline will be issued in 2022.

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Stress Testing **5.10**	1. If the stress scenarios are too stringent and/or have a low probability of occurring, this may result in a company holding excess funds at a high opportunity cost (i.e. lower debt servicing, regulatory ratios, dividends, return on investments). The company should manage its funds to meet known/ probable upcoming commitments, not necessarily stress scenarios. 2. Is this section on stress testing a separate requirement from the annual stress testing that is required by the draft FCR Regulations under the new IA 2018 which also requires the appointed actuary to continually identify and monitor matters that may threaten the insurer's financial condition? This seems to be a duplication of effort and documentation, especially if the recommendation is also for it to be done annually. Or is it that this will become mandatory for insurers once the guideline becomes effective ,regardless of when the IA is proclaimed and the regulations issued? If so, will the regulations supersede this section when it becomes effective? In any event, CBTT should develop and provide the scenarios for these stress tests, which will allow for a consistent comparison among the regulated entities.	1. It is important that risk management is forward looking and, in this regard, it is not sufficient that only probable upcoming events are considered. Stress scenarios should be sufficiently rigorous yet plausible allowing the institution to prepare for unexpected, adverse events. 2. As stated above, the guideline will only apply to institutions licensed or permitted under the FIA. Stress testing requirements for insurers will be discussed in separate liquidity risk management guidance for the insurance sector. However, it should be noted that stress testing should allow individual institutions to assess the strength of their liquidity risk management framework in the context of extreme yet plausible scenarios. In this regard, idiosyncratic stress testing is more appropriate. This allows institutions to develop stress testing scenarios that are relevant to their nature, complexity and business model and takes into account, inter alia, their liquidity risk exposure, threats and risk mitigation.

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Effective Date 7.2 Financial institutions are required to review this Guideline and take the necessary measures to ensure compliance with its contents within six months of issue.	1. Time-frame for compliance seems too short, especially if MIS needs to be implemented which can take more than 18 months. Recommended time frame is 24 months. 2. Overall a robust guideline that will require time for implementation. Consideration should be given to the industry to allow for proper documentation, review and approval before setting a date of implementation.	1. Liquidity risk is a key risk for the banking system and it is expected that institutions would already have systems in place to manage/mitigate their liquidity risk The principles in the Guideline should therefore help to strengthen the systems, policies and systems instituted. While the concern with the timeframe is noted, licensees are expected to take all such steps as are necessary to materially comply with the Guideline within the six month period. Where system upgrades are needed for efficiency or effectiveness, licensees should develop an action plan with timelines to address this issue and clearly document what interim measures will be instituted to reasonably comply with the Guideline.
Internal Controls **5.7.2 (b)** An effective internal control system for liquidity risk management should include, at a minimum, the following: (b) effective monitoring of liquidity and liquidity risk by relevant stakeholders, for example, treasury managers and the Chief Risk Officer.	1. Is this requirement related to the metrics listed in 5.7.2 c)? Would effective monitoring of liquidity and liquidity risk be adequately covered by regular/periodic reporting using the metrics in c)? If not, what would be considered effective monitoring?	1. The Guideline sets out minimum standards for the effective monitoring and control of liquidity risk. The Board and senior management are expected to comprehensively consider the institution's liquidity risk and ensure that, at a minimum, the principles set out in the Guideline are reflected in their liquidity risk management strategies, policies and systems including the reporting framework. Effective risk management and monitoring should be reflected in the institution's implementation of robust systems that mitigate its current and potential liquidity risk.

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Management Information System	1. The requirements for the Liquidity MIS may be costly and time-consuming to implement depending on the size of the company. 2. Moreso, this reporting requirement should apply to currencies held for operating purposes, and not all currency holdings, which may in some instances be static or infrequent.	1. Reporting is an important tool in the institution's risk management arsenal. The MIS should have the facility to report on positions in all currencies, whether static or infrequent. For example, the MIS should allow for identification of changes in the range of currencies in which the institution has positions.
General	1. It should be noted that the increasing frequency with which draft guidelines are being circulated by CBTT, together with the increasingly tight deadlines for feedback, is proving to be very onerous especially at a time when the focus needs to be on core business. This is especially noteworthy given that there are a number of items that have gone to CBTT for clarification for which no feedback has yet been provided.	1. The Central Bank notes the concern. However, risk management is an important hallmark of financial stability and is particularly significant given the current challenging circumstances and the potential increasing risk profile of financial institutions. In addition, these Guidelines are necessary prerequisites for the implementation of Basel II/ III. Consequently, and as indicated in our Phase 2 Basel II/ III Implementation Policy paper issued last year, there is an aggressive implementation time table for Phase 2 elements of Basel II/ III and issuance of guidelines. We would have indicated that we have delayed the implementation dates for aspects of Phase 2 Basel II/ III however the preparatory work for their implementation has continued. Further, we are not aware that there are a number of items awaiting feedback from the CBTT and would

		appreciate if the submit any outstanding issues for action.